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Intelligence Report

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Climate Change: Argentina Ready to Consider an Emissions Target

President Menem is willing to examine Natural Resources Secretary Alsogaray's recommendation that Argentina announce a greenhouse gas emissions growth target¹ at the Conference of Parties in Buenos Aires next month suggests that he may be ready to break ranks with the Group of 77 (G 77) developing countries. However, he may not realize how much heat he will take from China and India, which adamantly oppose targets for developing countries. The success of his initiative will depend on how conciliatory he is to the G 77, the extent to which he finesses the details of the Argentine target, and the effort he makes to showcase the potential of the Argentine economy to reduce greenhouse gas emissions.

If Menem announces a target, the United States probably will be criticized by European Union (EU) member states as an alleged instigator because the EU has criticized US efforts to recruit developing countries before the US itself reduces emissions at home. The European environmental press, which will be in Buenos Aires in force, will join the chorus of naysayers. At the recent Group of 8 meeting in London, France and Germany, in particular, opposed movement on the issue of developing countries' targets at Buenos Aires.

The Umbrella Group of non-EU developed countries, Chile, Central American countries, and the Alliance of Small Island States (AOSIS), however, probably will support an Argentine initiative because they are sympathetic to the US case for developing country targets. Brazil probably will be torn between the Foreign Ministry, wanting to criticize

¹ This paper uses the US Council of Economic Advisers' definition of a growth target—one that is set higher than the current emissions level but lower than the business as usual projection (BAU). Growth targets provide for continued economic development but with a lower emissions rate. Argentina's adoption of a growth target would also allow the government or Argentine private firms—such as YPF, the oil and gas producer and the country's largest corporation—to engage in an international emissions trading regime.

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the US interest in developing country targets, and the architects of the Clean Development Mechanism (CDM) in the other ministries in favor of keeping quiet--as they did at Kyoto. Mexico and Republic of Korea, as OECD member states, will feel more pressure to follow Argentina's lead. [redacted]

At the very least, a split in the G 77 will alter the dynamics of the Buenos Aires meeting. The G 77 and the EU probably will be even slower than usual in formulating their own positions to take account of an Argentine move and the meeting may be thrown into all-night sessions to sort out the new landscape for the negotiations. [redacted]

Menem's Last Hurrah

 [redacted]

His second term ends next year, and he is ready to act in the statesman's role. In this context, he probably considers a move will be good for Argentine-US relations, knowing of the pressures on the United States to recruit developing countries to accept emissions targets. He also knows that a target for the first commitment period of 2008-2012 will be especially welcome.

- In addition, he may see his initiative as consistent with the environmental cooperation he pledged President Clinton in the Barriloche Declaration last year. [redacted]

Political Risks Are Significant

 [redacted]

Menem, however, may not be fully aware of the political risks his move will pose for the success of the Buenos Aires Conference. Alsogaray has kept an Item 6 on voluntary emissions targets for developing countries on the agenda as a placeholder for Menem's move but has drawn fire since June even for that action.

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Economic Ground Is Prepared

With the caveat that Argentina is vulnerable to spillover from the East Asian financial crisis and to Brazil's current financial instability, the Argentine energy sector is positioned to move toward an emissions growth target. Although the Energy Secretariat has rejected carbon taxes to constrain emissions as politically infeasible, continuing expansion of natural gas, hydroelectricity, and nuclear energy make a target possible.

Natural gas production grew by 33 percent between 1990 and 1995. Thermal power from steam--raised increasingly by gas rather than oil--generates 43 percent of Argentina's electricity--a rate exceeded only by Netherlands and Russia. Gas flaring is being phased-out, and Combined Cycle Gas Turbines (CCGT) with 50-60 percent thermal efficiency is lowering consumption of fuel per unit of output.

Argentina is the world leader in converting diesel vehicles to Compressed Natural Gas (CNG). Indeed, CNG has become the fuel of choice for 75 percent of the taxi fleet. YPF Gas is offering financial incentives for more private vehicles to convert from diesel and gasoline to CNG.

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Argentina recently finished an expansion in hydropower equal to one-third of the maximum power load of the country in 1995. [redacted] Hydro provides 48 percent of the country's electricity. Argentina and Paraguay are building a 19,000 gigawatt plant on the Parana River and will soon turn it over to a private operating company. [redacted]

In addition, Argentina is building two nuclear power plants to raise nuclear's contribution to 8 percent of total electricity generated by 2010. [redacted]

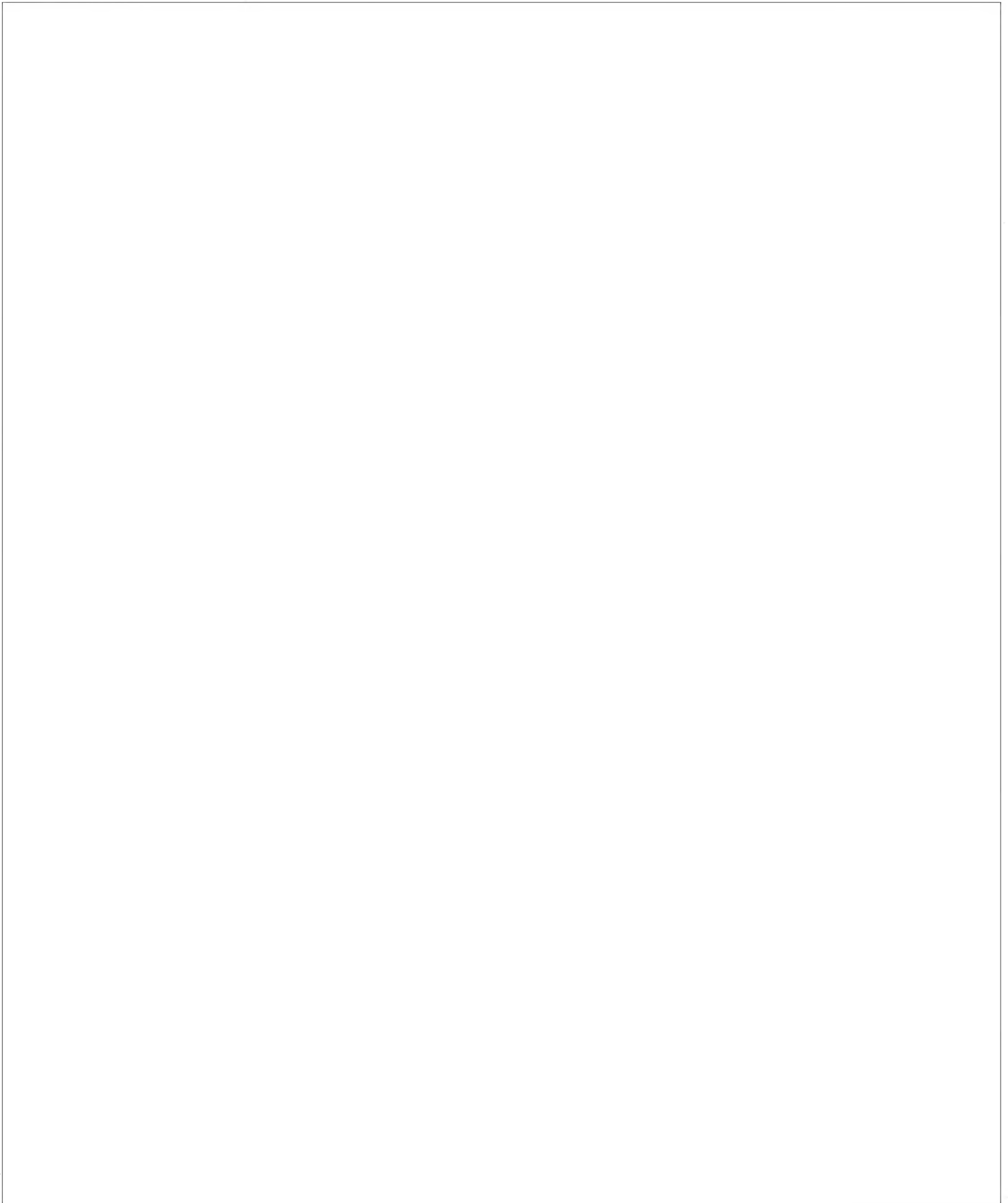
Deregulation and privatization of state-owned energy companies--such as YPF--have introduced energy efficiencies into the industrial sector that have, in turn, helped to limit emissions growth. [redacted] Argentina consciously modeled its deregulation policies in natural gas and electricity on the UK's deregulation of the British electricity market. [redacted]

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Argentina's Natural Gas Industry

Argentina has the second largest proven reserves of natural gas in South America after Venezuela, [redacted] Current production is concentrated in the same five basins as Argentine oil production since oil companies discovered them in conjunction with exploring for oil.

- The Gas Law of 1992 privatized ownership of Argentina's natural gas industry: two pipeline companies and eight distributors. Private investors took over during 1992-1994. ENARGAS, the state regulator, sets rates for natural gas carriers and is open to third party access.*
- Since the two pipelines currently operate near capacity, Argentina is building additional pipeline capacity, not only for the domestic market, but for markets in Chile and Brazil. Gas Andes, led by a Canadian corporation (NOVA), built and opened a \$325 million, 290-mile pipeline across the Andes to Santiago, Chile in 1997. TransGas, led by British Gas, Tenneco, and YPF (formerly the Argentine state oil and gas company) is building new CCGT plants to come onstream during 1998-2001. In addition, Alberta Energy Company, Marubeni, and Mobil are planning a \$1.5 billion "Mercosur" pipeline from Argentina's northern gas fields to Sao Paulo, Brazil.*
- A consortium of British Gas, Enron, and Pan American Energy (US) propose to construct a \$450 million, 4,000-mile pipeline from Patagonia to Porto Alegre, Brazil, according to press reports.*
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Table: Argentina: World Leader In CNG Vehicles

COUNTRY	CONVERSIONS	STATIONS
Argentina	427,000	580
Italy	290,000	280
Russia	205,000	187
USA	40,000	1,102
New Zealand	25,000	245
Canada	17,200	120
Brazil	14,000	39
Colombia	4,600	22
Indonesia	3,000	12
India	2,500	6
Pakistan	2,500	12
Germany	2,415	55
Chile	2,200	2
China	2,000	10
Venezuela	1,500	20
Australia	1,000	35
Other Countries	4,210	138
TOTAL	1,044,125	2,865

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Natural Gas Fields



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